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Dynamic Capabilities and Multinational Enterprise: Penrosean Insights and Omissions

Abstract and Key Results

- Penrose’s legacy is a curious one. Much cited, but little read, her work is recognized as one of the main intellectual foundations for modern resource based theories of business strategy and theories of organizational routines and capabilities.

- However, Penrose did not aim to contribute to the field of strategy; her goal was to advance understanding of the nature of the firm and its growth. Nevertheless, there are important insights in Penrose’s work that have implications for international business and for strategy.

- We discuss some of the implications of Penrose’s work as well as its limitations. We also briefly discuss the usefulness of adopting a “Penrosean” capability perspective in multinational enterprise (MNE) strategy analysis.

- The dynamic capabilities framework puts entrepreneurial management into the theory of multinational enterprise, a task Penrose left untouched.

Key Words

Penrose, Multinational Enterprise, Strategy Analysis, Strategic Management, Entrepreneurship, Dynamic Capabilities

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Introduction

Edith Penrose’s many and varied contributions to business studies deserve recognition. In her later years, she focused on the oil industry and on multinational enterprises (MNEs). In this paper, we note some of her earlier contributions which helped initiate important streams of research, including the resource based theory of the firm. Her influence has also extended to new streams of research on dynamic capabilities and entrepreneurship. We discuss some implications for MNEs of the dynamic capabilities framework.

In her most important scholarly journey, Edith Penrose set out to develop a theory of the growth of the firm. Indeed, this was the title of her now well-known 1959 treatise. Along the way she made several other astute observations about firms that turned out to be provocative to scholars interested in the theory of the firm and business strategy. It is these observations – particularly the notion that the firm is best thought of as a bundle of resources – which now constitute her better-known legacy.

The Resource Based Theory of the Firm

Penrose defined the internal resources of the firm as “the productive services available to a firm from its own resources, particularly the productive services available from management with experience within the firm” (p. 5). She presents the firm as an “autonomous administrative planning unit, the activities of which are interrelated and are coordinated” by management (pp. 15 et seq.). “A firm is more than an administrative unit; it is a collection of productive resources the disposal of which between uses and over time is determined by administrative decision – the physical resources of the firm consist of tangible things – there are also human resources available in a firm – strictly speaking, it is never resources themselves that are the ‘inputs’ in the productive process, but only the services that they render” (pp. 24 et seq.).

Put succinctly, Edith Penrose saw the firm as a “pool of resources the utilization of which is organized in an administrative framework. In a sense, the final products being produced by a firm at any given time merely represent one of several ways in which the firm could be using its resources” (pp. 149 et seq.).

As with the dynamic capabilities approach (which we shall discuss later), Penrose was enlightened enough to see a role in economic theory not only for managers but for entrepreneurs. “A theory of the growth of firms is essentially an examination of the changing productive opportunities of firms…” (pp. 31 et seq.). Penrose fur-